

ANNUAL
REPORT
2016

ON COURSE FOR THE
FUTURE



AMERICAN NATIONAL
BANKSHARES INC.

Every journey starts with a destination in mind. Throughout that journey, you reach milestones that mark your progress. Thus far, our journey has been fantastic.

As we take a moment to review our progress in 2016 and our prospects for 2017, we want to begin by introducing our operating theme: **“On Course for the Future.”**

With this theme, we not only acknowledge the foundation we have in place, the progress we have made, and the strength of our team shepherding us forward, but we also turn our gaze to what lies before us. As we move forward on our “Course for the Future,” we have one goal in mind: to uphold our community bank roots and mission to engage our clients and serve our community.

American National Bankshares has an exciting and historic story to tell, and our journey into the future is indeed on course!

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AMERICAN NATIONAL

American National Bankshares Inc. is a bank holding company with assets of \$1.7 billion. Headquartered in Danville, Va., it is the holding company of American National Bank and Trust Company (the “Bank”), a community bank serving Virginia and North Carolina through 26 banking offices. In addition, the Bank manages \$781 million through its Trust & Investment Services division. The Bank provides a full array of financial products and services, including personal and business banking, trust and investment services, and mortgage and insurance services. Electronic banking solutions range from a convenient Automated Teller Machine (ATM) network and debit cards to real-time Online Banking with Bill Pay, Mobile Banking with Mobile Deposit, mobile Debit Card alerts and Telephone Banking. Chartered in 1909, the Bank is entering its 109th year of operation. It has grown from a single office on Main Street in Danville to a progressive multi-state, regional financial institution. The focus on building relationships through quality financial services with exceptional customer service has remained constant. The Bank operates under a strong community bank philosophy and is a leader in charitable and civic support in all its markets. Many Bank employees serve on the boards of civic organizations throughout the Bank’s market area.

100626



April 3, 2017

TO OUR SHAREHOLDERS:

I am pleased to make this report to you. 2016 was yet another exciting year with significant growth in earnings, loans and deposits, as well as the entrance into two new market areas. Net income was up 8.4%, loan growth was 15.8%, and deposits grew 8.6%. In September, we announced that we were entering the Roanoke, Virginia, and Winston-Salem, North Carolina, markets.

Our net income for the year was \$16.3 million compared to \$15 million for 2015 net income. Basic and per common share was \$1.89 for the 2016 period compared to \$1.73 for 2015.

Our capital ratios remain strong and continue to exceed all regulatory minimums. In 2016, we worked to deploy our capital more effectively and efficiently to maximize shareholder return while maintaining capital ratios that are well above regulatory requirements. For the year ended December 31, 2016, average shareholders' equity to average assets was 12.64%. Our book value per common share was \$23.37 compared to \$22.95 on December 31, 2015.

We are pleased that the market price of our stock closed on December 31, 2016, at \$34.80, compared to the December 31, 2015, closing price of \$25.61. While the stock market was up generally at year end, we believe our stock price was impacted significantly by the growth discussed above and by the excellent work by our great team of employees, led by Jeff Haley and his talented executive group.

We also have a strong and effective Board of Directors. They do an outstanding job of representing the shareholders by providing strategic policy leadership and management oversight. You should be proud of them. I am proud to work with them.

I wish to recognize one director who will be retiring at the annual meeting of shareholders in May. Ben Davenport has been a director since 1992 and will be retiring pursuant to our directors' retirement policy. While we will miss his long and valuable service as a director, we are pleased that he will continue as a Director Emeritus during the next year.

We know the importance of your investment in our company, and we appreciate your support. We work hard to manage the company prudently and appropriately.

Very truly yours,

A handwritten signature in blue ink that reads "Charles H. Majors". The signature is written in a cursive style.

Charles H. Majors
Chairman of the Board
American National Bankshares Inc.
American National Bank and Trust Company



April 3, 2017

TO OUR SHAREHOLDERS:

The year 2016 proved to be very positive and productive for American National, both financially and strategically. Charley Majors outlined our financial success in his letter to you, so I will focus my comments on our strategic accomplishments following the conclusion of our 108th year of community banking.

Our bank has a three-year strategic plan that guides our efforts and focal points, and each year we fine-tune that plan based on changes that occur in our industry and our markets. One of our key strategic goals is growth. In September, we announced that we were entering the Roanoke, Virginia, and Winston-Salem, North Carolina, markets. Each of these markets represents areas where our commitment to community banking values, local decision-making and strong leadership will bring energy and growth to our company.

We are excited to have strong teams in place in both Roanoke and Winston-Salem. Early results for these operations are very encouraging. Both of these new markets are contiguous to our existing footprints, and we believe they will provide us with strong growth opportunities in both the short and long term.

While new growth is exciting, the steady growth of legacy markets is also important. We were pleased to see the de novo markets in Roanoke and Winston-Salem start strong and are equally happy to report that our legacy markets grew both loans and deposits as well.

An additional strategic priority is our commitment to the communities we serve. The “Course for the Future” theme is our commitment to community-style banking. It is at the heart of our organization, and I see many members of our staff bringing this theme to life in significant ways.

We have a mix of homegrown talent and newly infused expertise through recently hired team members. We believe this staffing combination brings energy and vitality and ensures that organizational knowledge about how we



THREE-YEAR STOCK (12/31 Closing Price)



TOTAL REVENUE (In millions, before interest and taxes)

“ I BELIEVE 2017 WILL BRING NEW OPPORTUNITIES THAT WILL AFFIRM WE ARE ‘ON COURSE FOR THE FUTURE.’ ”



NET INTEREST MARGIN



RISK-BASED CAPITAL RATIO

do community banking continues and evolves. Our team is second to none and a key element of our success.

In addition to planning for growth and committing to our communities, we also focus a significant amount of time on strategic succession planning. To that end, in December our chief credit officer, Helm Dobbins, announced his retirement effective March 30, 2017. Through his long tenure at the bank, Helm wrote an important chapter in the book of American National Bank history by developing a credit infrastructure that served us very well through the recent economic downturn. I would like to thank Helm for the work he did for our company; but more importantly, I would like to thank him for his friendship.

As progress continues to keep us “On Course for the Future” in 2017, the year ahead is indeed bright and full of opportunity. Leveraging our connected

footprint brings sustainable and consistent opportunity to positively impact the financial lives of our clients and strengthen the communities in which we serve.

Our team is composed of people from all walks of life that come together for a common purpose which is to serve our customers. That service takes the shape of community leadership roles, exceptional customer service, and community involvement. With each passing year, it becomes more apparent that our most important asset is our people. We have employees who have been with us many years and then we have new employees who have joined us during 2016. They are dedicated, experienced and professional and they performed again at a high level to produce these strong results for you. I commend all of our employees for their work and their loyalty to this organization, and I believe 2017 will bring new opportunities that will affirm we are “On Course for the Future.”

Very truly yours,

Jeffrey V. Haley
President and Chief Executive Officer
American National Bankshares Inc.
American National Bank and Trust Company

FINANCIAL HIGHLIGHTS As of December 31. (Amounts in thousands, except per share information and ratios)

	2016	2015	2014	2013	2012
Results of Operations:					
Interest income	\$ 56,170	\$ 55,169	\$ 47,455	\$ 52,956	\$ 57,806
Interest expense	6,316	5,904	5,730	6,583	8,141
Net interest income	49,854	49,265	41,725	46,373	49,665
Provision for loan losses	250	950	400	294	2,133
Noninterest income	13,505	13,287	11,176	10,827	11,410
Noninterest expense	39,801	40,543	34,558	35,105	36,643
Income before income tax provision	23,308	21,059	17,943	21,801	22,299
Income tax provision	7,007	6,020	5,202	6,054	6,293
Net income	16,301	\$ 15,039	\$ 12,741	\$ 15,747	\$ 16,006
Financial Condition:					
Assets	\$ 1,678,638	\$ 1,547,599	\$ 1,346,492	\$ 1,307,512	\$ 1,283,687
Loans, net of unearned income	1,164,821	1,005,525	840,925	794,671	788,705
Securities	352,726	345,661	349,250	351,013	340,533
Deposits	1,370,640	1,262,660	1,075,837	1,057,675	1,027,667
Shareholders' equity	201,380	197,835	173,780	167,551	163,246
Shareholders' equity, tangible	155,789	151,280	132,692	125,349	119,543
Per Share Information:					
Earnings per share, basic	\$ 1.89	\$ 1.73	\$ 1.62	\$ 2.00	\$ 2.04
Earnings per share, diluted	1.89	1.73	1.62	2.00	2.04
Cash dividends paid	0.96	0.93	0.92	0.92	0.92
Book value	23.37	22.95	22.07	21.23	20.80
Book value, tangible	18.08	17.55	16.86	15.89	15.23
Weighted average shares outstanding, basic	8,611,507	8,680,502	7,867,198	7,872,870	7,834,351
Weighted average shares outstanding, diluted	8,621,241	8,688,450	7,877,576	7,884,561	7,845,652
Selected Ratios:					
Return on average assets	1.02%	0.99%	0.97%	1.20%	1.23%
Return on average equity ¹	8.07%	7.65%	7.40%	9.52%	10.08%
Return on average tangible equity ²	10.85%	10.62%	10.31%	13.75%	15.25%
Dividend payout ratio	50.71%	53.65%	56.80%	46.03%	45.06%
Efficiency ratio ³	61.47%	63.81%	63.41%	57.57%	58.23%
Net interest margin	3.52%	3.69%	3.66%	4.10%	4.44%
Asset Quality Ratios:					
Allowance for loan losses to period-end loans	1.10%	1.25%	1.48%	1.59%	1.54%
Allowance for loan losses to period-end non-performing loans	360.39%	242.09%	302.21%	248.47%	227.95%
Non-performing assets to total assets	0.29%	0.48%	0.46%	0.65%	0.90%
Net charge-offs to average loans	0.00%	0.08%	0.07%	(0.02)%	0.07%
Capital Ratios:					
Total risk-based capital ratio	14.81%	16.34%	17.86%	18.14%	17.00%
Common equity tier 1 capital ratio	11.77%	12.88%	n/a	n/a	n/a
Tier 1 risk-based capital ratio	13.83%	15.23%	16.59%	16.88%	15.75%
Tier 1 leverage ratio	11.67%	12.05%	12.16%	11.81%	11.27%
Tangible equity to tangible assets ratio ⁴	9.54%	10.08%	10.00%	9.91%	9.64%

¹ Return on average equity is calculated by dividing net income available to common shareholders by average common equity.

² Return on average tangible equity is calculated by dividing net income available to common shareholders plus amortization of intangibles tax effected by average common equity less average intangibles.

³ The efficiency ratio is calculated by dividing noninterest expense excluding gains or losses on the sale of other real estate owned by net interest income including tax equivalent income on nontaxable loans and securities and excluding (a) gains or losses on securities and (b) gains or losses on sale of premises and equipment.

⁴ Tangible equity to tangible assets ratio is calculated by dividing period-end common equity less period-end intangibles by period-end assets less period-end intangibles.

PERFORMANCE GRAPHS

The charts say it all... progress forward and increased assets, deposits and loans PLUS an increase in total households. Our current legacy markets are producing, and our new opportunity markets are producing, too!

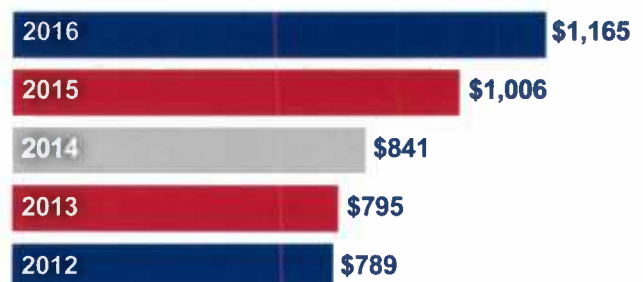
TOTAL ASSETS (in millions)



TOTAL DEPOSITS (in millions)



TOTAL LOANS (in millions)



CONSOLIDATED BALANCE SHEETS

As of December 31. (Dollars in thousands, except for share data)

	2016	2015
Assets:		
Cash and due from banks	\$ 20,268	\$ 19,352
Interest-bearing deposits in other banks	32,939	75,985
Securities available for sale, at fair value	346,502	340,349
Restricted stock, at cost	6,224	5,312
Loans held for sale	5,996	3,266
Loans, net of unearned income	1,164,821	1,005,525
Less allowance for loan losses	(12,801)	(12,601)
Net Loans	1,152,020	992,924
Premises and equipment, net	25,439	23,567
Other real estate owned, net of valuation allowance of \$192 in 2016 and \$329 in 2015	1,328	2,184
Goodwill	43,872	43,872
Core deposit intangibles, net	1,719	2,683
Bank owned life insurance	18,163	17,658
Accrued interest receivable and other assets	24,168	20,447
Total assets	\$ 1,678,638	\$ 1,547,599
Liabilities and Shareholders' Equity:		
Liabilities:		
Demand deposits—noninterest bearing	\$ 378,600	\$ 322,442
Demand deposits—interest bearing	209,430	227,030
Money market deposits	283,035	200,495
Savings deposits	120,720	115,383
Time deposits	378,855	397,310
Total deposits	1,370,640	1,262,600
Short-term borrowings:		
Customer repurchase agreements	39,166	40,611
Other short-term borrowings	20,000	—
Long-term borrowings	9,980	9,958
Junior subordinated debt	27,724	27,622
Accrued interest payable and other liabilities	9,748	8,913
Total liabilities	1,477,258	1,349,764
Commitments and Contingencies		
Shareholders' equity:		
Preferred stock, \$5 par, 2,000,000 shares authorized, none outstanding	—	—
Common stock \$1 par, 20,000,000 shares authorized, 8,618,051 shares outstanding at December 31, 2016, and 8,622,007 shares outstanding at December 31, 2015	8,578	8,605
Capital in excess of par value	75,076	75,375
Retained earnings	119,600	111,565
Accumulated other comprehensive income, net	(1,874)	2,290
Total shareholders' equity	201,380	197,835
Total liabilities and shareholders' equity	\$ 1,678,638	\$ 1,547,599

CONSOLIDATED STATEMENTS OF INCOME

	2016	2015	2014
Interest and Dividend Income:			
Interest and fees on loan	\$ 47,971	\$ 46,860	\$ 39,257
Interest on federal funds sold	—	6	—
Interest and dividends on securities:			
Taxable	4,454	4,072	3,775
Tax-exempt	3,135	3,681	3,971
Dividends	334	346	296
Other interest income	276	204	156
Total interest and dividend income	56,170	55,169	47,455
Interest Expense:			
Interest on deposits	5,103	4,811	4,654
Interest on short-term borrowings	10	9	9
Interest on long-term borrowings	325	324	325
Interest on junior subordinated debt	878	760	742
Total interest expense	6,316	5,904	5,730
Net Interest Income:	49,854	49,265	41,725
Provision for Loan Losses	250	950	400
Net Interest Income after Provision for Loan Losses:	49,604	48,315	41,325
Noninterest Income:			
Trust fees	3,791	3,935	4,196
Service charges on deposit accounts	2,048	2,066	1,735
Other fees and commissions	2,680	2,377	1,903
Mortgage banking income	1,713	1,320	1,126
Securities gains, net	836	867	505
Brokerage fees	843	946	643
Income from Small Business Investment Companies	463	912	176
Other	1,131	864	892
Total noninterest income	13,505	13,287	11,176
Noninterest Expense:			
Salaries	17,568	16,554	14,688
Employee benefits	4,264	4,311	2,988
Occupancy and equipment	4,246	4,425	3,727
FDIC assessment	647	750	647
Bank franchise tax	995	898	901
Core deposit intangible amortization	964	1,201	1,114
Data processing	1,828	1,725	1,448
Software	1,143	1,158	1,019
Other real estate owned, net	336	99	240
Merger-related expenses	—	1,998	780
Other	7,810	7,424	7,006
Total noninterest expense	39,801	40,543	34,558
Income before income taxes	23,308	21,059	17,943
Income taxes	7,007	6,020	5,202
Net Income	\$ 16,301	\$ 15,039	\$ 12,741
Net Income Per Common Share:			
Basic	\$ 1.89	\$ 1.73	\$ 1.62
Diluted	\$ 1.89	\$ 1.73	\$ 1.62
Average Common Shares Outstanding:			
Basic	8,611,507	8,680,502	7,867,198
Diluted	8,621,241	8,688,450	7,877,576